

# Committee for Sales Tax Reform

---

2300 Meadowvale Blvd.,  
Suite T44  
Mississauga, Ontario  
L5N 5P9

Phone: (905) 858-5601

June 16, 2005

The Honourable Greg Sorbara, MPP  
Minister of Finance, Government of Ontario  
7 Queen's Park Crescent  
Toronto, ON M7A 1Y7

(via courier)

## **Re: The Ontario Retail Sales Tax - Obstacle to Investment and Growth in Ontario**

Dear Minister,

The Committee for Sales Tax Reform (CSTR) would like to bring to your attention the significant cost burden that the Ontario Retail Sales Tax (ORST) places on Ontario businesses and the impact it has on investment and growth in Ontario.

CSTR is a group of Canadian business associations representing well over 60,000 businesses in Canada from large multinationals to national and smaller regional domestic companies. CSTR includes businesses from all major industries and sectors in the economy. CSTR believes that the current multitude of sales taxes in Canada hinders investment and growth for Canadian businesses. CSTR advocates harmonizing the ORST with the federal Goods and Services Tax (GST).

### ***ORST Penalizes Investment in Ontario***

Ontario is Canada's economic engine. Ontario produces nearly 50% of Canada's total exports to the US, led by the automotive industry, which employs more than 100,000 people. Yet, according to the Task Force on Competitiveness, Productivity and Economic Progress, Ontario still lags the competitiveness and prosperity achieved by other leading North American jurisdictions. Today, Ontario businesses are suffering from slumping exports, the rising dollar and increased costs. To remain competitive in the global marketplace, driving down costs is a key success factor. To these businesses "every penny counts".

ORST is charged on the purchase of capital equipment by businesses. Unlike the Goods and Services Tax (GST), ORST is a non-refundable tax and represents a cost to Ontario businesses. If Ontario businesses are to prosper, they need to invest in capital. ORST penalizes capital

investments by taxing business inputs. According to Statistics Canada, in 2000, \$6.1 billion (46.1%) of the total ORST collected by the Ontario government was levied on business purchases. ORST becomes imbedded in the cost of our products and makes our products more expensive on the international market, hurting our export sales.

A clear example of how ORST penalizes investments can be seen in the movement of business assets from another jurisdiction to Ontario. Currently, if a business wants to setup operations in Ontario or expand its current business in Ontario and moves assets from another province or state to Ontario, they would be required to pay ORST on the fair value of these assets. This would be the case even in instances where the business had already paid provincial sales tax or US sales and use tax on these assets in the other province or state. This results in a “cascading” of sales tax. Clearly, this is a barrier to investing in Ontario.

Canada’s business investment taxes are the third highest in the world. In Ontario, the Task Force on Competitiveness, Productivity & Economic Progress concludes that Ontario’s high tax burden is a contributing factor to under investment in Ontario. They recommend a “smart tax policy” that eliminates the ORST. According to the Task Force, removing ORST from capital investments would promote capital formation and growth. Similarly, the Organization for Economic Co-operation and Development (OECD) suggests that ORST inhibits investment and should be eliminated on capital goods.

### ***ORST Compliance Hurts Business***

Businesses in Canada currently spend \$3.4 billion per year in compliance costs according to the Canadian Tax Journal. In Ontario, businesses must comply with the ORST legislation and the GST legislation. The existence of two parallel and widely different sales tax systems in Ontario makes complying with the sales tax laws exceedingly costly for businesses. Compliance includes filing sales tax returns, dealing with multiple sales tax audits (quite often at the same time), and interpreting an overwhelming number of acts, regulations, bulletins, guides, rulings, etc.

Businesses must rely on in-house specialists and/or outside advisors to guide them through the maze of government sales tax rules. The burden of compliance costs falls much more heavily on small and medium sized businesses that do not have the resources to pay for specialists or advisors. This lack of resources often results in small and medium sized businesses paying more ORST than they should.

This begs the question: Does it make sense for a business selling something as simple as a light bulb to have to collect two separate sales taxes, file two separate returns, interpret two sets of laws, and deal with two separate auditors and government bureaucracies? Clearly, it doesn’t and Premier Dalton McGuinty agrees. Commenting on the need for the provincial and federal governments to “get their act together” when it comes to corporate tax collection, Premier McGuinty said, “Business has to fill out two forms and deal with two levels of government. That’s too much red tape”. The same can be said for sales tax.

If government wants business to remain competitive, it has to do more to reduce the compliance burden borne by business. According to Ontario Management Board chairman Gerry Philips

“We have to eliminate every unnecessary impediment to our business community because every other jurisdiction in the world is looking to take business from us.”

### ***Harmonizing the ORST with the GST– A step in the right direction***

#### CSTR’s Proposal

- Harmonize the ORST with the GST.
- One single tax administrator for a new harmonized sales tax.
- No tax-inclusive pricing.
- Zero-rated financial services.

#### Benefits of Harmonization

- Promote investment and growth in Ontario. Government tax policies shape investment decisions. Investors gauge government’s attitude toward business by the tax policies they implement. Harmonizing the ORST with the GST will encourage investment in Ontario and reduce the cost of doing business, which will enhance the competitive position of Ontario businesses.
- Save taxpayers money. Harmonizing the ORST with the GST would save taxpayers money by reducing government bureaucracy.
- Save business money. By harmonizing the ORST with the GST, business will benefit from reduced compliance costs.
- Promote better tax compliance. ORST is an archaic and often incomprehensible tax. A value added tax system is more straightforward. Tax compliance will improve significantly as businesses will not have to deal with two widely different sales tax regimes.

#### ***Moving Forward***

CSTR advocates harmonizing the ORST with the GST. This will encourage investment in Ontario, cut government red tape and save business and taxpayers’ money, all of which will enhance the competitive position of Ontario businesses.

CSTR applauds the Ontario government’s pledge to work with the federal government towards a single corporate income tax collection system. Combining this initiative with a harmonized value added tax system would create a better investment climate in Ontario.

CSTR, in partnership with the Ontario government, would like to set up a consultative group on sales tax reform. We would welcome the opportunity to discuss this proposal with you.

If you have any questions or require further information, please contact me directly at 905-858-5601.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Sunil Purbhoo', with a horizontal line extending to the right.

Sunil Purbhoo  
Committee Chair

**Attachments**

List of CSTR Members

**Copy**

The Honourable Joe Cordiano, Minister of Economic Development and Trade

The Honourable Gerry Philips, Chair of the Management Board of Cabinet